

Message Text

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ACTION MC-02

INFO OCT-01 EA-11 ISO-00 L-03 EB-11 COME-00 PM-07 NSC-07

SP-03 SS-20 RSC-01 TRSE-00 OMB-01 DRC-01 /068 W

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FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 4062

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CHJUSMAG PHIL

C O N F I D E N T I A L MANILA 6621

E.O. 11652: GDS

TAGS: MILI, RP

SUBJECT: M-16 RIFLE FACILITY

REF: (A) MANILA 6156; (B) STATE 115105

1. FOLLOWING WEEK OF DISCUSSIONS IN MANILA, COLT AND GOP HAVE MADE SOME PROGRESS IN RESOLVING ISSUES OUTLINED REFTEL A, BUT AREAS OF SUBSTANTIAL DISAGREEMENT REMAIN. ACCORDING TO MESSAGE FROM COLT REP STONE AND BASED ON CONVERSATION WITH DND UNDERSECRETARY SALIENTES, CURRENT STATE OF PLAY IS AS FOLLOWS:

(A) PRICE ESCALATION - GOP HAS AGREED TO ESCALATION IN PRICES OF PARTS AND MATERIALS, WITH U.S. BUREAU OF LABOR STATISTICS INDEX FOR APRIL 1974 TO SERVE AS BASE. GOP DID NOT, HOWEVER, AGREE TO COLT'S REQUEST FOR INCREASE IN TECHNICAL LICENSING FEE (WHICH INCLUDES SERVICES OF COLT TECHNICIANS) AND THIS MATTER REMAINS TO BE RESOLVED.

(B) FINANCING - NO AGREEMENT REACHED ON FINANCING DOLLAR COSTS NOT COVERED BY FMS LOAN. COLT CONTINUES TO INSIST ON AN IRREVOCABLE STANDBY LETTER OF CREDIT IN THE AMOUNT OF APPROXIMATELY \$7 MILLION. GOP IS NOT PREPARED TO PROVIDE L/C BUT HAS GIVEN COLT (1) LETTER FROM PHILIPPINE NATIONAL BANK (PNB) STATING THAT PNB WILL UNDERWRITE

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PROJECT'S COSTS IN PESOS; (2) LETTER; FROM CENTRAL BANK

GUARANTEEING AVAILABILITY FOREIGN EXCHANGE FOR PNB'S PESOS; AND (3) LETTER FROM SECRETARY OF FINANCE TO SECRETARY OF NATIONAL DEFENSE STATING THAT DEPARTMENT OF FINANCE PREPARED ALLOCATE ADDITIONAL FUNDS TO DND IF COSTS EXCEED DND BUDGET FOR PROJECT. GOP PROPOSALS UNDER CONSIDERATION BY COLT AND FINSEC VIRATA WILL CONSULT WITH COLT MANAGEMENT IN NEW YORK ON JUNE 18. COMMENT: GOP OFFICIALS HAVE LET IT BE KNOWN THAT THEY BELIEVE COLT INSISTANCE ON STANDBY L/C IS UNREASONABLE AND INSULTING IN THAT IT CALLS INTO QUESTION FULL FAITH AND CREDIT OF GOP AS EXPRESSED BY FINANCIAL PACKAGE OFFERED BY GOVERNMENT AND ITS COMMITMENT UNDER THE MOU.

(C) EXPORT PROVISION - GOP MAINTAINS THAT EXPORT RESTRICTIONS CONTAINED IN MOU TAKE PRECEDENCE OVER CONTRACT WITH COLT (PLEASE NOTE THAT PRODUCTION FOR EXPORT NOT SCHEDULED TO BEGIN UNTIL SEVENTH YEAR OF COLT-GOP CONTRACT AND THAT ANY EXPORTS PROPOSED AT THAT TIME WOULD REQUIRE CASE-BY-CASE APPROVAL BY MUNITIONS CONTROL). COLT HAS NOT PROVIDED GOP ALTERNATIVE WORDING TO CONTRACT WHICH WOULD ELIMINATE EXPORT PROVISION, MAINTAINING THAT IT WOULD BE PREMATURE TO DO SO UNTIL WRITTEN INSTRUCTIONS ARE RECEIVED FROM MC.

2. GOP MOST ANXIOUS MOVE AHEAD WITH PROJECT, INCLUDING CIVIL CONSTRUCTION PHASE WHICH REQUIRES PLANS AND GUIDANCE FROM COLT. IN CONVERSATION WITH EMBOFFS, COLT REPS FLATLY STATED COMPANY'S POSITION WAS TO MAKE NO REPEAT NO COMMITMENTS WHATSOEVER UNTIL ALL ISSUES RESOLVED TO QUOTE COMPLETE UNQUOTE SATISFACTION OF COLT.

3. COMMENT: WHILE COLT AND GOP HAVE INDEED MADE SOME PROGRESS IN RESOLVING DIFFERENCES, MUCH REMAINS TO BE DONE. TO CERTAIN EXTENT, BALL RESTS WITH USG OBLIGATION TO PROVIDE CLEAR GUIDANCE ON NECESSARY REVISIONS TO CONTRACT OR, ALTERNATIVELY TO APPROVE CONTRACT IN ITS PRESENT FORM. WE CONTINUE TO OPT FOR LATTER INASMUCH AS ALL PARTIES SEEM TO AGREE THAT, UNDER ANY CIRCUMSTANCES, MC WILL HAVE FINAL WORK ON EXPORTS. ACTION REQUESTED. WITH REGARD FINANCING PROBOEM, WE SUGGEST DEPARTMENT AND/OR DOD AGAIN APPROACH COLT INDICATING COLT NOW HAS WRITTEN CONFIRMATION OF GOP COMMITMENT AND CONTINUED INSISTANCE ON L/C WILL, AT BEST, CONFIDENTIAL

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BE MAJOR IRRITANT.

4. RE EXPORT ISSUE WE WISH AS SOON AS POSSIBLE TO REMOVE THIS AS AN IMPEDIMENT TO COLT'S PERFORMANCE. WE HAVE LITTLE DOUBT THAT FIRM IS HIDING BEHIND FACT THIS ISSUE UNRESOLVED TO CONTINUE MOST UNHELPFUL TINKERING WITH CONTRACT, AND WE SEE NO BASIS FOR HAVING USG EMERGE AS FALL GUY. ACTION REQUESTED. PLEASE PROVIDE BY IMMEDIATE

CABLE MINIMUM REPEAT MINIMUM CHANGES REQUIRED TO MAKE
CONTRACT ACCEPTABLE TO USG.
SULLIVAN

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